

VZCZCXYZ0000
PP RUEHWEB

DE RUEHDM #0120/01 0411353
ZNY CCCCC ZZH
P 101353Z FEB 09
FM AMEMBASSY DAMASCUS
TO RUEHC/SECSTATE WASHDC PRIORITY 5944
INFO RUEHAM/AMEMBASSY AMMAN PRIORITY 7507
RUEHAK/AMEMBASSY ANKARA PRIORITY 5686
RUEHGB/AMEMBASSY BAGHDAD PRIORITY 0978
RUEHLB/AMEMBASSY BEIRUT PRIORITY 5059
RUEHEG/AMEMBASSY CAIRO PRIORITY 3812
RUEHTV/AMEMBASSY TEL AVIV PRIORITY 2303
RUEHFR/AMEMBASSY PARIS PRIORITY 0456
RUEHLO/AMEMBASSY LONDON PRIORITY 0477
RHEHNSC/NSC WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L DAMASCUS 000120

SIPDIS

STATE FOR NEA/ELA, EEB/TFS; NSC FOR SHAPIRO/MCDERMOTT;
COMMERCE FOR BIS/CHRISTINO

E.O. 12958: DECL: 02/03/2018

TAGS: [ECON](#) [EFIN](#) [EPET](#) [ETRD](#) [ETTC](#) [PGOV](#) [PTER](#) [SY](#)

SUBJECT: RE-ENGAGING SYRIA: A FIRST LOOK AT SANCTIONS

REF: A. DAMASCUS 108

[B](#). DAMASCUS 94

[C](#). 08 DAMASCUS 661

[D](#). 08 DAMASCUS 559

[E](#). 08 DAMASCUS 199

[F](#). 08 DAMASCUS 735

[G](#). 08 DAMASCUS 742

[H](#). 07 DAMASCUS 950

Classified By: Charge d'Affaires Maura Connelly for reasons 1.4(b,d)

Summary

[1](#). (C) Top-level SARG officials are increasingly identifying U.S. trade sanctions as a key issue in any diplomatic re-engagement. The Presidential waiver authority codified in the Syrian Accountability Act and operationalized by the Commerce Department's General Order No. 2 authorizes the export and re-export (with a license) of items relating to aviation safety, telecommunications, and humanitarian need. As our bilateral relations with Syria progressively deteriorated from 2004-2008, the previous administration's guidance for interpreting General Order No. 2 became increasingly narrow. By relaxing the interpretation of General Order No. 2 to be commensurate with the "spirit of the law," the speed and volume of export licenses for items that maintain aviation safety, promote the exchange of information, and improve humanitarian conditions could be increased, should the USG so choose. Positive reciprocal steps would provide the administration with justification for considering greater economic engagement. Even if the SARG dismisses these initial steps as merely symbolic, the primary economic benefactors of a potential relaxation would be hard-hit U.S. companies and sectors of Syrian society that are in our national interest to strengthen -- NGOs and the private sector. End summary.

Trade Sanctions Are a Hot-Button Issue

[2](#). (C) In our conversations with Syrian officials and private businessmen since President Obama's inauguration, we hear a

steady clamor for the lifting of U.S. economic sanctions -- particularly trade sanctions under the Syria Accountability Act (SAA). President Bashar al-Asad complained to a visiting delegation from the U.S. Institute of Peace that his doctor friends could not equip their hospitals with the latest medical technology due to U.S. sanctions. In a recent meeting with CODEL Smith (ref A), FM Muallim implied that trade sanctions prevented the SARG from considering any USG request to re-open the Damascus Community School (DCS) or to construct a new embassy compound (NEC). Deputy PM for Economic Affairs Dardari told Reuters on February 4 that the lifting of sanctions was essential to having "normal relations between Syria and the U.S." and would be "a very important part of any dialogue between Syria and the United States."

¶3. (C) We leave to a separate cable a comprehensive review of our sanctions policy, but in this cable we suggest some avenues for economic engagement that are immediately available under existing U.S. law as a low-cost, first step to signal our desire for a better relationship, should a policy decision be made to do so.

Presidential Waiver Authority

¶4. (U) On May 11, 2004, President Bush implemented the SAA by issuing Executive Order 13338. In his message to Congress, President Bush exercised his statutory authority to waive the application of subsections 5(a)(1) and 5(a)(2)(A) of the SAA to permit the export and re-export of, among other things, medicines on the Commerce Control List (CCL) and medical devices; aircraft parts and components for purposes of flight safety; information and informational materials, as well as telecommunications equipment and associated items to promote the free flow of information; and certain software and technology. The former President justified this waiver as in the interest of U.S. national security to help maintain aviation safety, to promote the exchange of information, and for humanitarian purposes.

¶5. (U) On May 14, 2004, the U.S. Commerce Department (DOC) issued General Order No.2 to operationalize licensing policy consistent with E.O. 13338. General Order No. 2 stipulated that a license is required for export or re-export to Syria of all items subject to the Export Administration Regulations (EAR), except food and medicine classified as EAR99. It further authorized the Commerce Department's Bureau of Industry and Security (BIS) to consider license applications on a case-by-case basis for six categories of goods. Three of the six categories related directly to the U.S. national security interests defined by President Bush: (1) medicine and medical devices (humanitarian); (2) parts and components intended to ensure the safety of civil aviation and the safe operation of commercial passenger aircraft (maintaining aviation safety); (3) telecommunications equipment and associated computers, software and technology (promoting the exchange of information).

Interpretation of General Order No. 2

¶6. (C) As our bilateral relations with Syria progressively deteriorated from 2004-2008, the previous administration's guidance for interpreting General Order No. 2 became increasingly narrow, with the following consequences for our stated national interests:

-- Maintaining Aviation Safety: Although some licenses for spare parts were approved, the lengthy interagency adjudication process (over a year in some cases) effectively prevented Syrian Arab Airlines (Syrian Air) from having a sufficiently reliable flow of spare parts to maintain its fleet. Consequently, Syrian Air today is operating just five Airbus A320s from a fleet of 16 known aircraft (6-Airbus A320, 6-Boeing 727, 2-Boeing 747-SP, 2-Tupolev 134). The

Damascus International Airport operates the American Oshkosh brand emergency firefighting and medical vehicles, which are also in need of replacement parts that have heretofore not been approved for export.

-- Promoting Exchange of Information: To our knowledge, the only entities that have received licenses for telecommunications equipment and associated computers, software and technology are the national phone company (Syria Telecommunications Establishment) and the two GSM providers (SyriaTel and MTN). Two key sectors of Syrian civil society -- NGOs and private businesses -- have been unsuccessful in legally obtaining the basic IT essentials to operate internationally, such as Oracle accounting software, Norton Anti-Virus software, and licensed MS Office upgrades. Out of necessity, international NGOs administering Iraqi refugee assistance programs and domestic NGOs strengthening civil society have resorted to using pirated or illegally trans-shipped software and hardware. The Aleppo-based International Center for Agricultural in Dry Areas (ICARDA) (which trains Iraqi agricultural engineers, among other programs, and is primarily, albeit indirectly, funded by USAID) cannot obtain a license to upgrade its Oracle software. The EU, working through UNDP, could not complete a project to strengthen Syrian border controls because they could not obtain export licenses for computer equipment to be installed in Customs Directorate offices at border terminals.

USG interpretation of General Order No. 2 also affects legitimate Syrian businessmen who represent an increasingly influential sector of society and are generally predisposed to a better relationship with the United States.

-- Humanitarian Purposes: Export licenses for medical equipment have been more forthcoming than for either aviation spare parts or telecommunications equipment. The stigma of doing business in Syria, however, coupled with the requirement to license all spare parts for medical equipment -- even consumable rubber gaskets worth USD 0.05 -- has convinced many U.S. manufacturers that the Syrian market is simply too small to be worth the trouble. From a public relations as well as a humanitarian perspective, the consequences are abysmal. For example:

- The Syrian Ministry of Health paid USD 800,000 for a GE MRI machine that was delivered to a hospital treating the poorest segment of the Syrian population and Iraqi refugees. After delivering the machine in 2005, GE decided to suspend its Syrian operations due to sanctions concerns before it sent a licensed technician to install the MRI. The MRI machine subsequently remained inoperable in a basement storage room for two years until GE's regional office in Dubai sent a tech to complete the installation.

- The U.S. firm Cardinal Healthcare recently acquired a smaller U.S. medical company (Viasys) that held several pre-existing equipment contracts with Syrian hospitals. After the acquisition, Cardinal informed the Syrian agent for Viasys that it intends to cease supplying spare parts and machines to Syria. The local agent, who received a clean "bill of health" during the Commerce Department's July 2007 Post-Shipment Verification (PSV) visit to Syria, is now facing hundreds of thousands of dollars in financial penalties and possibly prison time for not being able to fulfill the long-term maintenance requirements of the multi-million dollar contract.

- Chicago-based Abbott Laboratories may lose a USD 1 million bid and performance bond (and a USD 16 million contract over the next three years) if it cannot obtain a license to export new blood analysis machines and reagents to the General Establishment for Blood and Medical Industries (GEBMI) -- the Syrian national blood bank -- by February 28, 2009. As the sole blood testing facility and supplier to all Syrian hospitals, GEBMI is considered a strategic asset and is nominally administered by the Syrian Ministry of Defense. Emboff recently paid a no-notice visit to GEBMI with the local Abbott representative, and heard from GEBMI's civilian director that the organization operates as an

independently-financed non-profit. The director made a convincing argument that the Syrian military accounted for less than ten percent of the blood bank's total donors and recipients, and the only uniformed personnel Emboff observed in the center were conscripts performing janitorial work. Under the current guidance for interpreting General Order No. 2, however, it is unlikely that Abbott would receive the necessary export license. Not only will the American company be liable for the bid and performance bond, but GEBMI is likely to award the contract to a Swiss vendor.

Support for Pro-Reform Businessmen

¶17. (C) As we argued in mid-2008 (ref E), Syria's new status as a net importer of refined oil by-products has dramatically increased Syria's budget deficit, decreased revenues, and highlighted its increasing dependence on international trade.

At the same time Syria's oil is running out, entrenched government interests and many Syrian industrialists who benefit from subsidies remain opposed to any corrective economic policies. Absent an accommodation between Israel and Syria, which would be likely to increase pressure for lifting the state of emergency, short-term internal change in Syria is not going to come from the political opposition. The Western-oriented business elites are the principal hope for change. While such a process will be slow, any U.S. pressure that benefits legitimate businessmen at the expense of known corrupt figures establishes ties to this group that will be useful as a basis for any future U.S. economic relationship with Syria.

¶18. (C) Syrian business elites are always on the lookout for the possibility of increased economic engagement with the U.S. We believe they will be more likely to pressure the regime if they see a willingness by the USG to be more flexible in facilitating unsanctioned areas of private sector trade between the two countries. There are authentic Syrian businessmen who deal with regional and global markets. Many of these businessmen are Sunni, but Christian Arabs and Armenians are also well-represented because of the secular minority (Alawi) regime's favorable treatment of other minorities. Particularly eager for business opportunities in the current global financial crisis, this community cares about opportunities in major financial centers, such as the U.S., Europe, the Gulf, Turkey, India, and China.

¶19. (C) Moreover, President Bashar al-Asad has awakened hopes among businessmen that he will implement real economic reform and will allow Syria to take its "rightful place" in the regional and international market. The limited economic reforms that Bashar has implemented over the past six years have resulted in opening Syria's economy to a greater private sector presence. These reforms have enticed some Syrian expatriates with much-needed white-collar skills to return, and have renewed business hopes for Syria's potential as an emerging market.

¶10. (C) It is worth repeating that there is widespread skepticism within the business community about the value of Iranian interest in Syria. The Sunni business community harbors deep suspicions about Iranian/Shia business involvement in Syria (some of which is related to antipathy towards the Shia). The Iranian government is actively trying to establish an economic relationship with Syria that is as strong as its political relationship, although Iran has little to offer Syria. (refs F, G)

Start With What the Sanctions Allow

¶12. (C) Should the USG decide to alter our approach to implementing sanctions against Syria, there is a low-cost economic avenue immediately available -- the Presidential waiver authority built into the SAA and operationalized by General Order No.2 -- to signal our seriousness to the

Syrians. By relaxing the interpretation of General Order No. 2 to be commensurate with the "spirit of the law," Washington could increase the speed and volume of export licenses for items that maintain aviation safety, promote the exchange of information, and improve humanitarian conditions for the average Syrian. We could then use such licenses to gauge Syrian willingness to reciprocate with concrete actions towards our issues of concern. Positive reciprocal steps would provide the Administration with justification for considering greater economic engagement. Even if the SARG dismisses these initial steps as symbolic rather than as indicators of our interest in improving relations, the primary economic benefactors of a potential relaxation would be hard-hit U.S. companies, pro-reform Syrian businessmen and NGOs.

Useful Test Case: Boeing 747-SP Licenses

¶13. (C) In a rather fortuitous test-case of this suggestion, Syrian Minister of Transportation Yarub Badr described the recent issuance of export licenses to Boeing as a "positive indication" that the new Administration is seeking a better relationship with Damascus. The licenses authorize Boeing to conduct airframe overhauls (D-checks) on Syrian Air's two 747-SP aircraft, which have been grounded since March and October 2008, respectively. It is our understanding that the interagency recommended approval for the two licenses some three months ago -- after a year-long internal review -- but that other offices within the Executive Branch delayed their issuance. After the licenses were finally issued to Boeing on January 24, 2009, Post notified the Ministry of Foreign Affairs on February 5 and the SARG Transportation Minister informed Syrian media on February 9. While the SARG may publicly herald these licenses as indicative that all sanctions will soon be lifted, the licenses offer Washington policymakers an intermediate step to gauge Syrian responsiveness.
CONNELLY